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C O N F I D E N T I A L SECTION 01 OF 03 BUCHAREST 000411

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SUBJECT: (C) ROMANIA'S ENERGY SECTOR - RUSSIAN DEPENDENT
AND NOT HAPPY ABOUT IT

REF: BUCHAREST 32

Classified By: Deputy Chief of Mission Mark Taplin for reasons 1.5 (B)
and (D).

11. (C) SUMMARY. Romania, once a net exporter of energy products, now produces 40% of its domestic oil consumption and 60% of its gas needs, and the rates are decreasing each year. While gas imports are based on trades at the international gas boards, Romania imports nearly all gas from Gazprom through two middleman agents. While Romania has sought a greater role in European hydrocarbon distribution for some time, the January Russia-Ukraine energy crisis has refocused attention on the need for energy security and a diversification of source. END SUMMARY.

Romania Reliant On Russian Gas Imports

12. (C) Romania imports 40% of its gas from Russia through Ukraine, with the rest produced domestically. In 2005, Romania imported some six billion cubic meters of natural gas from Russia via Ukraine through two joint ventures with Russian Gazprom: WIEE and Conef. WIEE is a 50/50 joint venture between Gazprom and Wintershall, a subsidiary of the German conglomerate BASF. WIEE imported some 4.5 billion cubic meters of gas to Romania in 2005. In 2005, Minister of Economy and Commerce Ioan-Codrut Seres signed an agreement with Gazprom extending the gas supply deal until 2030. While the terms of the contract are not public, sources inform the Embassy that it is a flexible "take or pay" agreement by which Wintershall may vary from the agreed upon import amount by plus/minus 30 percent. Import totals are determined annually and pricing is set by a negotiated formulae. The current price of imported gas is \$280 per 1000 cubic meters. Several public figures, including President Basescu, have criticized Minister Seres for extending the contract at prices described as above Western Europe rates.

13. (C) The other importer, Conef, is part of Marco International, a global resource trading company with headquarters in New York. Conef imports on the terms established by the Wintershall/Gazprom agreement. Aside from Conef, Marco owns a large aluminum plant, Alro Slatina, and other metals manufacturing facilities. While the company's ownership structure is opaque, it is widely believed that Russian steel and iron mogul Vitali Machitski is the true proprietor. The volume of their gas supplies reportedly amounts to 1.5 billion cubic meters of natural gas per year.

14. (SBU) In order to better cope with natural gas shortages and address winter-time price spikes, Romania plans to double its underground storage capacity for natural gas to 6 billion cubic meters in 2007.

Domestic Oil Production on the Decline

15. (SBU) According to the Romanian National Forecast Commission, Romania's overall energy independence will decrease to 64.8% in 2008. Romania's oil sector is less regulated, with four major companies, Rompetrol, RAFO, Petrom and Lukoil, importing and refining oil based on domestic production and open trading on international boards. Several smaller companies also participate in the market. Rompetrol, controlled by Romanian businessman and political player Dinu Patriciu, has experienced a six-month slippage in its market capital as its owners face prosecution in Romanian courts. RAFO Oil's activities are also exposed, as its owner, Ovidiu Tender, faces penal charges as well. Petrom, owned by Austrian OMV, is expanding its refining capacity to match its aggressive growth strategy. Lukoil also operates a refinery for its imported Russian crude.

16. (SBU) At the current exploitation rate, Romania's crude oil reserves will be exhausted in 17 years unless new deposits are found, according to the president of the National Agency for Mineral Resource (ANRM). However, the Agency believes that important oil reserves may exist at previously unexploited depths of over 10,000 meters under the ground. A relative few (425 to be exact) of Romania's 30,000 existing oil-derricks drill deeper than 4,000 meters. Only 17 drill deeper than 6,000 meters. The average depth is between 800 and 2,500 meters. The Agency hopes that, through investment in drilling depth, Romania could tap a further 40-80 million tons of hydrocarbons.

Political Pressure on Energy Prices

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17. (SBU) In a populist move following last year's jump in at-the-pump prices, President Traian Basescu met with the four major oil companies in October 2005 to urge lower prices. Basescu asserted that Romanian prices should be based on much lower extraction costs for Romanian oil, at \$12.49 per barrel, since domestic production covers 40% of Romania's current consumption. The companies rejected Basescu's request as an attempt to induce cartel behavior. The President stated he was concerned about higher prices hurting consumers and negatively effecting Romania's already strained trade and current account balances.

18. (SBU) Domestic gas prices, conversely, are regulated by the GOR, which is resisting EU pressure to reach market level rates by accession. The GOR negotiated an arrangement by which it must raise domestic prices by no less than \$25 per 1000 cubic meters annually. The current domestic price is \$110 per 1000 cubic meters, versus the above-mentioned \$280 for imports.

Romanian Fallout from Russia-Ukraine Gas Dispute

19. (C) Romania experienced a 25 percent reduction in gas supply over the New Year's weekend due to the row between Russia and Ukraine. Following on the heels of the Russian cut-off of electricity supply to Moldova, the crisis refocused policy makers on the need for greater source diversification to improve security of supply. On January 27, Minister of Foreign Affairs Mihai-Razvan Ungureanu pointed to the crisis as a reason to move forward quickly on the Nabucco gas pipeline project to provide Europe and Romania improved supply options. Prime Minister Tariceanu has likewise expressed support for Nabucco. Romania's draft national security strategy also highlights energy security as a national priority. According to the text of the draft, Romania aims to reduce dependency upon supplies from "unstable regions or from countries that use energy as a tool for political pressures."

Scrambling to Diversify Energy Sources

¶10. (C) Romania has pursued an increased role in the European energy distribution network for some time, most recently through the Nabucco gas pipeline project and the Pan European Oil Pipeline (PEOP). However, the emphasis on improving Romania's energy options has increased in the wake of the Russia-Ukraine dispute. Among the projects currently being pursued are:

-- Pan-Arabic pipeline: Economy Minister Seres announced that state-owned company Romgaz will participate in the development of a gas trading house in Egypt alongside Turkish and Egyptian companies, which would act as a natural gas trader for resources in the African country. The new company would build and operate the Pan-Arabic pipeline to link Egypt with Turkey, connecting with the Nabucco pipeline and Europe.

- Qatari Gas Terminal: President Basescu announced plans to build a liquefied gas terminal in Constanta in cooperation with Qatar during his February visit to the Gulf state. The Qatari Minister of Energy was in Bucharest March 9 and 10 to continue discussions. While no details were announced, the terminal would reportedly supply Romania, Bulgaria, Moldova, Serbia - Montenegro, Croatia, Hungary, Austria, the Czech Republic, and Slovakia, targeting a potential regional market of 86 million people. The feasibility study will reportedly commence in the near future. No details as to how Qatari gas would reach Constanta have been announced.

COMMENT

¶11. (C) Romania's interest in pursuing projects such as the Nabucco and PEOP pipelines has only heightened following the start-of-year energy showdown between Russia and Ukraine. Traditionally suspicious of Russian intent, Romania is increasingly uncomfortable with its dependence on gas imports from the country. The GOR realizes that true options will take some time to materialize, but is now more aggressively pursuing energy partnerships with third countries. Romania is clearly in an advantageous position geographically should one or more "southern corridor" energy projects emerge. Pulling together complex deals, however, has not always been Romania's forte. We will need to continue to demonstrate our interest and support for Romania playing an active role in the diversification of energy supplies across Europe and the

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Black Sea region whenever we can. End Comment.

¶12. (U) AmEmbassy Bucharest's reporting telegrams are available on the Bucharest SIPRNet website:
www.state.sgov.gov/p/eur/bucharest.
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